

OIG-20-05

National Credit Union
Administration
Community Development
Revolving Loan Fund

Financial Statements as of and for the Years Ended
December 31, 2019 and 2018, and
Independent Auditors' Report

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

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Independent Auditors' Report

Inspector General, National Credit Union Administration and
the National Credit Union Administration Board:

Report on the Financial Statements

We have audited the accompanying financial statements of the National Credit Union Administration Community Development Revolving Loan Fund (the CDRLF), which comprise the balance sheets as of December 31, 2019 and 2018, and the related statements of operations, changes in fund balance, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with U.S. generally accepted accounting principles; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America, in accordance with the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, and in accordance with Office of Management and Budget (OMB) Bulletin No. 19-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 19-03 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above presents fairly, in all material respects, the financial position of the National Credit Union Administration Community Development Revolving Loan Fund as of December 31, 2019 and 2018, and its operations, changes in fund balance and cash flows for the years then ended in accordance with U.S. generally accepted accounting principles.



Other Reporting Required by Government Auditing Standards

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements as of and for the year ended December 31, 2019, we considered the CDRLF's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the CDRLF's internal control. Accordingly, we do not express an opinion on the effectiveness of the CDRLF's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the *Federal Manager's Financial Integrity Act of 1982*.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the CDRLF's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, and contracts, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 19-03.

Purpose of the Other Reporting Required by Government Auditing Standards

The purpose of the communication described in the Other Reporting Required by *Government Auditing Standards* section is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the CDRLF's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

KPMG LLP

Washington, DC
February 14, 2020

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

BALANCE SHEETS

As of December 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
ASSETS		
Cash and Cash Equivalents (Notes 3 and 7)	\$ 13,688	\$ 8,844
Loans Receivable, Net (Notes 4 and 7)	6,030	9,705
Interest Receivable (Note 7)	<u>10</u>	<u>14</u>
TOTAL ASSETS	<u>\$ 19,728</u>	<u>\$ 18,563</u>
LIABILITIES AND FUND BALANCE		
Accrued Technical Assistance Grants (Note 7)	\$ 3,803	\$ 3,030
Fund Balance		
Fund Capital	13,999	13,675
Accumulated Earnings	<u>1,926</u>	<u>1,858</u>
Total Fund Balance	<u>15,925</u>	<u>15,533</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 19,728</u>	<u>\$ 18,563</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

STATEMENTS OF OPERATIONS

For the Years Ended December 31, 2019 and 2018

(Dollars in thousands)

	<u>2019</u>	<u>2018</u>
REVENUES		
Interest on Cash Equivalents	\$ 171	\$ 104
Interest on Loans	39	45
Appropriations Used (Note 5)	1,983	2,000
Canceled Technical Assistance Grants (Note 5)	<u>(340)</u>	<u>(103)</u>
TOTAL REVENUE	<u>1,853</u>	<u>2,046</u>
EXPENSES		
Technical Assistance Grants (Note 5)	2,000	2,074
Canceled Technical Assistance Grants (Note 5)	(340)	(114)
Provision for Loan Losses (Note 4)	<u>125</u>	<u>-</u>
TOTAL EXPENSES	<u>1,785</u>	<u>1,960</u>
NET INCOME	<u>\$ 68</u>	<u>\$ 86</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

STATEMENTS OF CHANGES IN FUND BALANCE

For the Years Ended December 31, 2019 and 2018

(Dollars in thousands)

	Fund Capital			Accumulated Earnings	Total Fund Balance
	For Loans	For Technical Assistance	Total Fund Capital		
December 31, 2017	\$ 13,388	\$ 185	\$ 13,573	\$ 1,772	\$ 15,345
Appropriations Received (Note 5)	-	2,000	2,000	-	2,000
Appropriations Used (Note 5)	-	(2,000)	(2,000)	-	(2,000)
Canceled Appropriations Returned to Treasury (Note 5)	-	(1)	(1)	-	(1)
Canceled Technical Assistance Grants (Note 5)	-	103	103	-	103
Net Income	-	-	-	86	86
December 31, 2018	\$ 13,388	\$ 287	\$ 13,675	\$ 1,858	\$ 15,533
Appropriations Received (Note 5)	-	2,000	2,000	-	2,000
Appropriations Used (Note 5)	-	(1,983)	(1,983)	-	(1,983)
Canceled Appropriations Returned to Treasury (Note 5)	-	(33)	(33)	-	(33)
Canceled Technical Assistance Grants (Note 5)	-	340	340	-	340
Net Income	-	-	-	68	68
December 31, 2019	<u>\$ 13,388</u>	<u>\$ 611</u>	<u>\$ 13,999</u>	<u>\$ 1,926</u>	<u>\$ 15,925</u>

See accompanying notes to the financial statements.

**NATIONAL CREDIT UNION ADMINISTRATION
COMMUNITY DEVELOPMENT REVOLVING LOAN FUND**

**STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2019 and 2018
(Dollars in thousands)**

	<u>2019</u>	<u>2018</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Income	\$ 68	\$ 86
Adjustments to Reconcile Net Income to Net Cash Used in Operating Activities		
Provision for Loan Losses (Note 4)	125	-
Appropriations Used (Note 5)	(1,983)	(2,000)
Canceled Technical Assistance Grants (Note 5)	340	103
Changes in Assets and Liabilities		
(Increase) / Decrease in Interest Receivable	4	(3)
Increase in Accrued Technical Assistance Grants	773	569
Net Cash Used in Operating Activities	<u>(673)</u>	<u>(1,245)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan Principal Repayments	4,550	410
Loan Disbursements	<u>(1,000)</u>	<u>(2,000)</u>
Net Cash Provided by or Used in Investing Activities	<u>3,550</u>	<u>(1,590)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Appropriations Received 2019/2020	2,000	-
Appropriations Received 2018/2019	-	2,000
Canceled Appropriations Returned to Treasury 2013/2014	(33)	-
Canceled Appropriations Returned to Treasury 2012/2013	<u>-</u>	<u>(1)</u>
Net Cash Provided by Financing Activities	<u>1,967</u>	<u>1,999</u>
NET INCREASE / (DECREASE) IN CASH AND CASH EQUIVALENTS	4,844	(836)
CASH AND CASH EQUIVALENTS — Beginning of year	<u>8,844</u>	<u>9,680</u>
CASH AND CASH EQUIVALENTS — End of year	<u>\$ 13,688</u>	<u>\$ 8,844</u>

See accompanying notes to the financial statements.

NATIONAL CREDIT UNION ADMINISTRATION COMMUNITY DEVELOPMENT REVOLVING LOAN FUND

NOTES TO THE FINANCIAL STATEMENTS For the Years Ended December 31, 2019 and 2018

1. ORGANIZATION AND PURPOSE

The Community Development Revolving Loan Fund (the CDRLF) for credit unions was established by an act of Congress (Public Law 96-123, November 20, 1979) to stimulate economic development in low-income communities. The National Credit Union Administration (the NCUA) and the Community Services Administration (CSA) jointly adopted Part 705 of the NCUA Rules and Regulations, governing administration of the CDRLF, on February 28, 1980.

Upon the dissolution of CSA in 1983, administration of the CDRLF was transferred to the Department of Health and Human Services (HHS). From 1983 through 1990, the CDRLF was dormant.

The Community Development Credit Union Transfer Act (Public Law 99-609, November 6, 1986) transferred the CDRLF administration back to the NCUA. The NCUA Board adopted amendments to Part 705 of the NCUA Rules and Regulations on September 16, 1987, and began making loans/deposits to participating credit unions in 1990.

The CDRLF stimulates economic activities in the communities served by low-income designated federally-chartered and state-chartered credit unions through its loan and technical assistance grant program. These financial awards are appropriated by Congress and are intended to support credit unions in their efforts to provide basic financial services to residents in their communities, enhance their capacity to better serve their members and respond to emergencies. The policy of the NCUA is to revolve loans to eligible credit unions as often as practical to maximize the economic benefits achieved by participating credit unions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation – The CDRLF prepares its financial statements in accordance with accounting principles generally accepted in the United States of America (GAAP), based on standards issued by the Financial Accounting Standards Board (FASB), the private sector standards setting body. The Federal Accounting Standards Advisory Board (FASAB) is the standards setting body for the establishment of GAAP with respect to the financial statements of federal entities. FASAB has indicated that financial statements prepared based upon standards promulgated by FASB may also be regarded as in accordance with GAAP for federal entities that have issued financial statements based upon FASB standards in the past.

Basis of Accounting – The CDRLF maintains its accounting records in accordance with the accrual basis of accounting and recognizes income when earned and expenses when incurred. In

addition, the CDRLF records investment transactions when they are executed and recognizes interest on investments when it is earned.

Use of Estimates – The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the following:

- reported amounts of assets and liabilities;
- the disclosure of contingent assets and liabilities, if any, at the date of the financial statements; and
- the reported amounts of revenues and expenses during the reporting period.

Cash Equivalents – Cash equivalents are highly liquid investments with original maturities of three months or less. The Federal Credit Union Act permits the CDRLF to make investments in United States Treasury securities. All investments in 2019 and 2018 are cash equivalents and are stated at cost, which approximates fair value.

Loans Receivable and Allowance for Loan Losses – Since inception, Congress has appropriated a total of \$13.4 million for the CDRLF revolving loan program. The CDRLF awards loan amounts of up to \$500,000 to participating credit unions based on financial condition. These loans have a maximum term of five years and are subject to the interest rate provided by the CDRLF Loan Interest Rate policy, which is reviewed annually. Effective March 29, 2019, the CDRLF set the interest rate to 1.50%, an increase from the previous rate of 0.60% set on May 1, 2014. Interest is to be paid on a semiannual basis beginning six months after the initial distribution of the loan and every six months thereafter until maturity. Principal is to be repaid on the maturity date of the loan.

Loans are initially recognized at their disbursed amount, and subsequently at amortized cost, net of the allowance for loan losses, if any. A provision for loans considered to be uncollectible is charged to the Statement of Operations when such losses are probable and reasonably estimable. Provisions for significant uncollectible amounts are credited to an allowance for loan losses, while de minimis amounts are directly charged-off. Management continually evaluates the adequacy of the allowance for loan losses based upon prevailing circumstances and an assessment of collectability risk of the total loan portfolio as well as historical loss experience. Accrual of interest is discontinued on nonperforming loans when management believes collectability is doubtful.

Technical Assistance Grants – The CDRLF issues technical assistance grants to low-income designated credit unions using multiyear appropriated funds and income generated from the revolving fund. Grant income and expense is recognized when the CDRLF makes a formal commitment to the recipient credit union for technical assistance grants. The CDRLF reviews long-term unspent technical assistance grant awards (e.g. outstanding awards past the period of eligibility) and takes formal steps to cancel expired grants.

Fair Value Measurements – Cash and cash equivalents, loans receivable, interest receivable, and accrued technical assistance grants are recorded at book value, which approximates estimated fair value.

Related Party Transactions – The NCUA, through the Operating Fund (OF), provides certain general and administrative support to the CDRLF, including personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage. The value of these contributed services is not charged to the CDRLF.

Revenue Recognition – Appropriation revenue is recognized as the related technical assistance grant expense is recognized. Total appropriation revenues will differ from total technical assistance grant expenses because technical assistance grants are funded by both appropriations and income generated from the revolving fund. Interest on cash equivalents and interest on loans is recognized when earned.

Income Taxes – The NCUA, as a government entity, is not subject to federal, state, or local income taxes.

Commitments and Contingencies – Liabilities for loss contingencies arising from claims, assessments, litigation, fines and penalties, and other sources are recorded when it is probable that a liability has been incurred and the amount can be reasonably estimated. Legal costs incurred in connection with loss contingencies are expensed as incurred.

3. CASH AND CASH EQUIVALENTS

The CDRLF’s cash and cash equivalents as of December 31, 2019 and 2018 are as follows (in thousands):

	<u>2019</u>	<u>2018</u>
Deposits with U.S. Treasury	\$ 4,868	\$ 3,747
U.S. Treasury Overnight Securities	8,820	5,097
Total	<u>\$ 13,688</u>	<u>\$ 8,844</u>

4. LOANS RECEIVABLE

Loans receivable as of December 31, 2019 and 2018 consisted of the following (in thousands):

	<u>2019</u>	<u>2018</u>
Balance as of the Beginning of the Year	\$ 9,705	\$ 8,115
Loans Disbursed	1,000	2,000
Loan Repayments	<u>(4,550)</u>	<u>(410)</u>
Loans Receivable as of the End of the Year	<u>6,155</u>	<u>9,705</u>
Allowance for Loan Losses as of the End of the Year	<u>(125)</u>	<u>-</u>
Loans Receivable, Net, as of the End of the Year	<u>\$ 6,030</u>	<u>\$ 9,705</u>

Loans outstanding as of December 31, 2019 are scheduled to be repaid as follows (in thousands):

Year	Amount
2020	1,500
2021	1,155
2022	500
2023	2,000
2024	<u>1,000</u>
Loans Outstanding	\$ 6,155
Allowance for Loan Losses	<u>(125)</u>
Total Loans Receivable, Net	<u><u>\$ 6,030</u></u>

The CDRLF has the intent and ability to hold its loans to maturity and anticipates realizing the carrying amount in full.

5. TECHNICAL ASSISTANCE GRANTS

The CDRLF administers a technical grant assistance program to fulfill its mission to stimulate economic growth in low-income communities. These grants are typically provided on a reimbursement basis to ensure that grant awards are appropriately used.

Multiyear Funds

The CDRLF grant program is primarily funded through an annual appropriation from Congress. Multiyear funds can be obligated to participating credit unions for up to two years. Canceled technical assistance grants from previously used multiyear funds are returned to the U.S. Treasury and credited back to the original appropriated fund from which they were awarded.

In 2019, the CDRLF received a \$2.0 million appropriation from Congress for FY 2019. This multiyear appropriation is available for obligation through September 30, 2020. As of December 31, 2019, the CDRLF has obligated \$2.0 million of the multiyear funds. For the period ended December 31, 2019, the CDRLF canceled \$339.6 thousand of technical assistance grants awarded from multiyear funds.

In 2018, the CDRLF received a \$2.0 million appropriation from Congress for FY 2018. This multiyear appropriation was available for obligation through September 30, 2019. As of December 31, 2018, the CDRLF obligated \$2.0 million of the multiyear funds. For the year ended December 31, 2018, the CDRLF canceled \$103.4 thousand of technical assistance grants awarded from multiyear funds.

Upon cancellation, \$33.0 thousand from the FY 2013 appropriation and \$1.3 thousand from the FY 2012 appropriation was returned to the U.S. Treasury in 2019 and 2018, respectively.

Revolving Fund

The CDRLF can also award technical assistance grants from the revolving fund. These grants are recognized as Technical Assistance Grants expense when the funds are obligated to participating credit unions. If a grant awarded from the revolving fund is canceled, the funds are recognized as Canceled Technical Assistance Grants.

As of December 31, 2019, the CDRLF awarded \$18.1 thousand in technical assistance grants from the revolving fund. In 2019, the CDRLF canceled \$0.8 thousand of technical assistance grants awarded from the revolving fund.

As of December 31, 2018, the CDRLF awarded in \$74.4 thousand in technical assistance grants from the revolving fund. In 2018, the CDRLF canceled \$10.3 thousand of technical assistance grants awarded from the revolving fund.

6. CONCENTRATION OF CREDIT RISK

The CDRLF has the authority to provide loans to low-income designated credit unions. At the discretion of the NCUA, participating credit unions can record an awarded loan as a nonmember deposit, which qualifies up to \$250,000 of the loan proceeds to be insured by the National Credit Union Share Insurance Fund (NCUSIF). Loan balances that exceed \$250,000 are uninsured and pose a potential credit risk to the CDRLF. The aggregate total of uninsured loans was \$1.6 million and \$3.6 million as of December 31, 2019 and 2018, respectively. The decrease in FY 2019 is primarily due to loan maturities of \$2.0 million in loan amounts over \$250,000.

7. FAIR VALUE MEASUREMENTS

The fair value of an instrument is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following table presents the carrying values and established fair values of the CDRLF's financial instruments as of December 31, 2019 and 2018 (in thousands):

	2019		2018	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Assets				
Cash and Cash Equivalents	\$ 13,688	\$ 13,688	\$ 8,844	\$ 8,844
Loans Receivable, Net	6,030	6,119	9,705	9,771
Interest Receivable	10	10	14	14
Liabilities				
Accrued Technical Assistance Grants	3,803	3,803	3,030	3,030

The following methods and assumptions were used to estimate the fair value of each class of financial instrument:

Loans Receivable – Fair value is estimated using an income approach by separately discounting each individual loan’s projected future cash flow. The discount rate reflects the pricing and is commensurate with the risk of the loans to the CDRLF. Loans are valued annually on December 31.

Other – The carrying amounts for cash and cash equivalents, interest receivable, and accrued technical assistance grants approximate fair value.

8. RELATED PARTY TRANSACTIONS

The NCUA, through the OF, supports the administration of programs under the CDRLF by paying related personnel costs such as pay and benefits as well as other costs which include but are not limited to telecommunications, supplies, printing, and postage.

For the years ended December 31, 2019 and 2018, the NCUA, through the OF, provided the following unreimbursed administrative support to the CDRLF (in thousands):

	<u>2019</u>	<u>2018</u>
Personnel	\$ 571	\$ 504
Other	<u>59</u>	<u>55</u>
Total	<u>\$ 630</u>	<u>\$ 559</u>

9. SUBSEQUENT EVENTS

Subsequent events have been evaluated through February 14, 2020, which is the date the financial statements were available to be issued. Management determined there were no significant items to be disclosed as of December 31, 2019.